

## **New Course! The Financial System**

MULT-UB 27 – Counts toward either Finance or Business Economics concentrations. Pre-requisites are Economics of Global Business and Foundations of Finance.

### **Why This New Course?**

The financial crisis has shown both how important the financial system is to the global economy, and how complicated it is. Financial systems are centered around financial institutions and capital markets, but they also involve governments, public policy and regulation. They span the globe from the US, the EU and Japan to Russia, China and the Emerging Markets. In key areas, country-level financial architectures are integrating to form a more seamless, high-performance whole, but this integration also amplifies problems during times of crisis. This course provides students with a broad and rigorous understanding of (i) how the global financial system works and what purposes it serves, (ii) who the major players are and how they operate, and (iii) what challenges the system creates for public policy. In doing so, the course helps students understand and make the most of their own opportunities in the financial system.

### **Who's Teaching?**

Roy C. Smith and Ingo Walter (Fall 2013) and Stan Zin (Spring 2014). Together, they have loads of experience in commercial and investment banking, research, consulting and policy issues. Check them out on the Stern website.

### **FAQs**

A. What did we learn from the recent financial crisis?

Financial systems are essential to the global economy, but they are complicated and increasingly interdependent.

B. Who are the key players?

Governments, central banks, regulators, banks, investment banks, shadow banks, rating agencies, pension funds and other investors...all around the world.

C. What are the basic roles of the financial system?

Allocate capital and risk efficiently, manage information asymmetries, and provide appropriate performance and risk incentives to promote economic welfare through growth, innovation, and stability.

D. What do I get out of it?

You can be a part of it! Understanding the system will help you

- See the whole picture.
- Decide where you want to be and where the opportunities are. (The system is in flux, jobs are migrating and evolving, new opportunities are emerging.)
- Knock the socks off job interviewers.
- Add more value as you rise through the system.

### **What's in the Box?**

Plenty. Here is a preliminary outline.

<u>Session</u>	<u>Topic</u>
1.	Financial intermediation in the real economy. Core banking functions and maturity transformation.
2.	What is a commercial bank? From the Medicis to a basic balance sheet and P&L components.
3.	How do commercial banks make money, lose money and fail? Balance sheet management, credit spreads and asset-liability management. Role of capital and liquidity
5.	Why's and how's of basic bank regulation. Who's watching the store?
7.	How to save and invest without banks: Brokerage and introduction to fiduciaries.
8.	How to borrow without banks. Debt capital markets.
9.	From banks to capital markets: Basics of securitization.
10.	Raising equity capital: IPOs, secondaries, preferreds. Rights issues. Converts.
11.	Investment banking. Functions, risks and strategies.
12.	Universal banking and financial conglomerates. Is bigger better? Is broader better? For the client? For the system? For the shareholder?
13.	<b>Mid-term exam.</b>

14. The buy side: Mutual funds and hedge funds.
15. The buy side: Insurance pools and pension funds.
16. Secondary markets, market-making and liquidity, the role of trading and speculation. Basics of market microstructure.
17. Risk management and derivatives markets.
18. Plumbing of the financial system: The information infrastructure, accuracy and immediacy. Rating agencies. Macro, debt and equity research. Information dissemination (Bloomberg, Reuters) and interpretation. First Call, Morningstar.
19. Plumbing of the financial system: Transactions infrastructure. Exchanges, dark pools, clearance & settlement, custody. Efficiency properties, transparency and transactions costs.
20. Everybody in the pool! The shadow financial system. Review of non-banks engaged in financial intermediation and maturity transformation. Add finance companies, leasing firms, credit card firms, payday lenders, etc. Issues of financial efficiency, innovation, competition, stability, contagion, regulation.
21. Financial system globalization. Linking savings pools and financing needs worldwide. Why your new vacuum cleaner may be financed by Mrs. Takahashi in Yokohama. Cross-currency and cross-border issues. Globalization of financial institutions - follow the money.
22. Back to macro – the financial system and monetary policy.
23. The financial crisis: What went wrong and why. Systemic risk. Macro-prudential and micro-prudential failure
24. Back to the drawing board. Global regulatory initiatives. Impact on firms and markets going forward.

Final Exam